ANALYSIS

Syndicated Loans – Volatility? What Volatility?

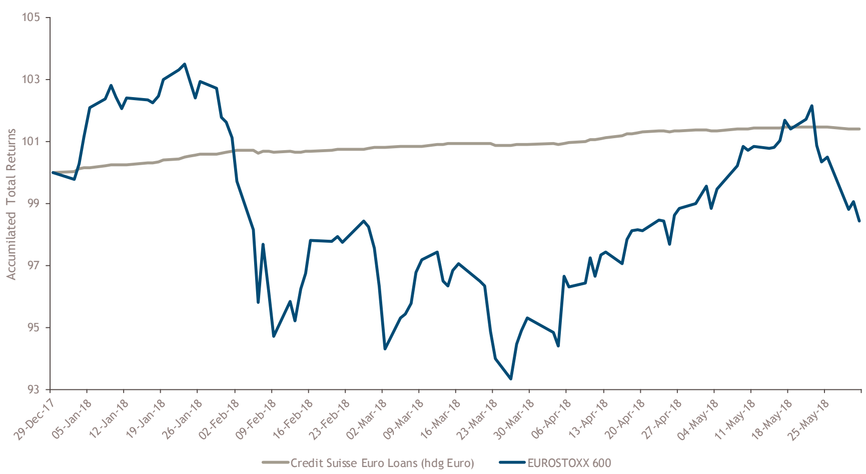
June 2018

We believe the solid technical backdrop continues to underpin the asset class

May was, for the most part, a turbulent month in global financial markets, marking the second period of notable volatility we have seen so far this year.

However, as can be seen in Fig. 1, the European syndicated loans market was much less volatile than other markets. The asset class had already demonstrated resilience in the face of February's volatility and, despite the rise in political volatility, we believe loans once again proved their worth.

Fig. 1 – Volatility Remains Low in Syndicated Loans



Source: Muzinich & Co analysis, Credit Suisse, Bloomberg. Credit Suisse Western Leverage Loan Index (CS WELLI), EuroStoxx 600 Index. Relative Asset Class Performance (rebased to 100 at 29 Dec 2017). Data as of May 31st, 2018. Past performance is not indicative of future results.

Torben Ronberg

Head of Syndicated Loans

Prior to joining Muzinich, Torben worked for ECM Asset Management Limited, a Wells Fargo company, where he was Head of Sub-Investment Grade responsible for overseeing all loan and high yield investments in asset-class-specific portfolios, as well as across ECM's multi-asset-class portfolios. Prior to this Torben was with the Danske Bank Group based in Copenhagen and London. Torben has more than 20 years of experience in corporate banking - the leveraged finance market in particular. Torben holds an Executive MBA from London Business School.

In our view, the syndicated loan market's outperformance was driven by two main factors. Firstly, the institutional nature of the investor base means that there was no selling of European loans by retail investors, and secondly the strong carry.

Given May's sell off was driven by political events in Italy, it is also worth mentioning that Italy makes up a relatively insignificant 1.65% of the Credit Suisse Western European Leveraged Loan Index and is the twelfth-largest country.

Despite volatility in wider markets, the primary market for European syndicated loans continued to produce transactions in May. The market notched up volumes of €10.5 billion over the month, which is almost double the previous month's tally and brings year-to-date issuance to €52.1 billion.[1]

The continued expansion of the market size, to €243 billion, is testament to the continued M&A pipeline which has generated approximately 60% of issuance this year and is therefore providing increased diversity to the market.[2]

Overall, the asset class has grown 35% over the last 12 months and we believe this a trend that is likely to continue.[3]

Meanwhile issuance from collateralised loan obligations (CLOs) so far this year is running at €10.4 billion from 25 transactions, and we believe the market looks on course to exceed last year's €21 billion of issuance.[4]

Anecdotally, loan demand continues to be supported by the estimated 40+ CLO warehouses in the market, as well as continued institutional flows to managed accounts and bank lending.

Overall, the outlook for European syndicated loans appears attractive over the medium term in our opinion. As recent events have highlighted, syndicated loans may provide investors protection from periods of elevated volatility while the asset class continues to expand, providing investors with a widening opportunity set.

1. Source: S&P LCD Global Market Intelligence, as of 31st May 2018.
2.Source: Credit Suisse Western European Leveraged Loan Index, as of 31st May 2018.
3. Ibid.
4. Source: S&P LCD Global Market Intelligence, as of 31st May 2018.

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Market Index Descriptions:

CS Western European Leveraged Loan Index (CSWELLI) -The CS Western European Leveraged Loan Index is designed to mirror the investable universe of the Western European leveraged loan market. Loans denominated in US dollar or Western European Currencies are eligible for inclusion. The index is rebalanced monthly on the last business day of the month instead of daily. Qualifying loans must have minimum outstanding balance of $100 million (in local currency), issuers with assets located in or revenues derived from Western Europe, at least one year long tenor, be rated "5B" or lower, fully funded and priced by a third party vendor at month-end.

EuroStoxx 600 - The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.